BACK TO SCHOOL TAX TIPS FOR PARENTS

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Now that summer is over, it's that wonderful time of year when the seasons are changing, the leaves are falling, and your kids have gone back to school or daycare. As expenses start to add up, it is a good time for a reminder of some potential tax saving opportunities available to you as a parent. Having kids is expensive, so it is wise to take advantage of tax saving opportunities that are available for parents.

Our goal is to provide updates on topical accounting and tax issues. Information contained in this newsletter is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients and readers. We would be pleased to discuss any questions that you, the reader, might have in greater detail.

Childcare Expense Deduction

The most common way to save money on your tax return as a parent is the childcare expense deduction. The purpose of this deduction is to provide parents who incur these expenses some relief so that they can work, go to school, or carry on a business. The Canada Revenue Agency ("CRA") provides some examples of expenses which would qualify for the deduction:

- Caregivers providing childcare services;
- Day nursery schools and daycare centres;
- Fees for childcare services offered through educational institutions;
- Day camps and day sports schools where the primary goal of the camp is to care for children;
- Boarding schools, overnight sports schools, or camps where lodging is involved.

Some examples of expenses which would not qualify for the deduction are medical expenses, clothing, transportation, and education.

Each year, for each child, the maximum amount you can claim is the following:

- $8,000 for children under 7;
- $5,000 for children aged 7 to 16;
- $11,000 for children who qualify for the disability tax credit.

In terms of which parent is eligible to claim the deduction, the general rule is that the parent with the lower income must claim the deduction. In situations where income is equal between the two parents (a rare situation), a joint election must be made by both parents to select which parent will be claiming the deduction. Another stipulation of the deduction is that the lower income parent's deduction is limited to 2/3 of his or her earned income. Earned income generally consists of salary, business income, scholarships, CPP disability pensions, and some other government assistance programs. Below is an example to illustrate these rules:

- Spouse A and Spouse B have 3 children: aged 3, 6, and 9;
- Spouse A earns $30,000 of investment income and $18,000 employment income;
- Spouse B earns $48,000 of business income;
- They incur $18,000 of childcare costs.

In this example, the maximum amount they can claim is $21,000 ($8,000 for each child under 7, and $5,000 for the 9-year-old). Both spouses have $48,000 of income, so which one should claim the deduction? If Spouse A claims the deduction, they would be limited to a $12,000 deduction (2/3 of $18,000). It then becomes clear that it would be more beneficial for Spouse B to make the claim.

It is important to remember to keep all your receipts and other supporting documentation in case CRA asks to see them.

School and Tutoring Costs for Children with a Learning Disability

If you have a child with a learning disability, you may be able to claim the costs of education and tutoring services as medical expenses. Talking books, reading services, devices and software to accommodate people with learning disabilities are some examples of eligible expenses.

In order to claim these expenses, a medical practitioner must certify, in writing, that the child requires the use of such equipment, educational facilities or personnel provided by a school as a result of a long-term physical or mental impairment. For tutoring services, the services must be paid to a person in the business of providing such services.

Registered Education Savings Plan (RESP)

Conventional wisdom dictates that the earlier you start, the better when it comes to saving for your child's education. An RESP is a type of savings plan through which you can tax-efficiently save for a child's education. RESPs are typically set up by Canadian financial institutions and investment fund managers. The main advantage of an RESP is that your savings grow tax free, meaning that there is no tax on the investment earnings, provided that they stay within the plan. Another major advantage of an RESP is that the Canadian government will match your contribution by 20%, up to an annual maximum of $500 for each child under the Canada Education Savings Grant program. Additional bonds and grants are available for families with low or modest income. Unlike a Registered Retirement Savings Plan (RRSP) however, the contributions made to an RESP are not tax deductible.

When the funds are withdrawn from the RESP to pay for school, the accumulated income earned in the plan (such as dividends, interest and capital gains) is taxed in the hands of the student, not the parent. This is normally advantageous because the student likely does not have significant income at that stage of their lives and so the tax paid on the withdrawal would normally be lower than if the withdrawal was made in the hands of the parent.

Some additional important points to consider with respect to RESPs:

- Each beneficiary is subject to a maximum of $50,000 in contributions. Any contributions in excess of $50,000 are subject to a penalty of 1% per month;

- An RESP has a maximum life of 35 years and contributions can only be made until the beneficiary turns 31; these periods are extended by 10 years if the beneficiary qualifies for the disability tax credit;
- If your child chooses not to pursue post-secondary education, the money in the plan is not lost. However, you will need to repay any government contributions to the plan and you must pay tax on the accumulated income.

There are several opportunities available for parents to save taxes. To get a better understanding of how these rules could be applicable to your situation, please contact our office.

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